CHAPTER I

INTRODUCTION
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1.1 BACKGROUND

Segment Reporting has become an important financial reporting issue surrounding the corporate sector globally. With the robust diversification and globalization, it is obvious that consolidated financial statement alone could no longer represent the overall view of financial information precisely and correctly, due to the different growth rate, profitability and risk among the segments of a diversified company. That’s why stakeholders are not fully satisfied by the aggregated financial statement. They like to get certain separate segment information in the form of segment report along with the aggregated report. The presentation of segment information helps the stakeholders to identify and analyze the opportunities and risks which a diversified company faces. In India, segment reporting becomes popularized since October, 2000 when the Institute of Chartered Accountant of India (ICAI) has issued AS 17 “Segment Reporting”.

In the recent past, there have been considerable efforts being made by several standard setting bodies, accounting-focused organization, accounting academics and business leaders to develop a single set of universally accepted global financial accounting and reporting standards for improving the quality, comparability and consistency of the financial reporting practices. This global convergence of accounting standards will substantially reduce the cost of capital and enhance the ability of investors to make cross-broader investment decisions. It will also provide the opportunities for industrial growth and for accounting professionals as they are able to render their services in different jurisdiction of the world [Kim & Shi (2005); Sardar (2007)]. So with a view to achieving the modern business philosophy that is maximization of wealth, everyone should try to improve its quality of financial
statements by adopting or converging with the International Accounting Standards (i.e. IFRSs). The process of adoption of International Financial Reporting Standards (IFRSs) gained momentum after the decision had been taken by the EU to make IFRSs mandatory for all its listed companies from the year 2005.

The International Accounting Standard Board (IASB) has issued number of International Financial Reporting Standards (IFRSs) to replace some International Accounting Standards (IASs) as part of its ‘Convergence Project’ including IFRS 8 ‘Operating Segments’ on 30-11-2006. It states the enterprise should prepare its segment report on the basis of its operating segments which are determined by the managerial approach (i.e. key decision maker). It should enable the enterprise to minimize the cost of segment reporting as it produced previously for decision making purpose. The main change from the current standard is the introduction of management approach. IASB recognized one of the benefits of this new approach is that information through the eye of management will allow users to better assess an entity’s operations.

In the age of global convergence, with the line of other countries India has also very rightly decided to converge her accounting standards with that of the International Accounting Standard Board (IASB). The process of convergences was initiated in India in the year 2007, when ICAI issued the concept paper on convergence with IFRSs in India. Accordingly, Indian apex standard setting body Institute of Chartered Accountant of India (ICAI) has reviewed its prevailing accounting standards and modified through aligns with the respective IFRSs for issuing a set of new Indian Accounting Standards (Ind ASs) including Ind AS 108 ‘Operating Segments’. In February, 2011 although the Ministry of Corporate Affairs (MCA) has notified these Ind AS as equivalent standards to IFRSs but remained silent about the effective date, due to some implementations and tax issues. But continuously, considerable efforts are being devoted by both MCA and
ICAI for minimizing the prevailing variances as compared to IFRSs particularly those existed in 2011 version of Ind AS in a time bound manner.

A recent decision has also been taken by the US Securities and Exchange Commission (SEC) to permit the foreign companies listed in the US market for preparing their financial statements in accordance with IFRSs only and to liberate from preparing any separate financial statement under US GAAP or any reconciliation thereof. Therefore, Indian companies listed in the US market would be benefited from having a single set of IFRSs compliance financial statement. Initiatives also have been taken by the Indian Banking Association (IBA) and Insurance Regulatory and Development Authority (IRDA) to ensure that the banking and insurance companies are gearing up for IFRSs adoption. On the other hand all most all industries are preparing themselves to easy accustom with the implementation of Ind AS. So far the situation is concern, they are almost ready to adopt such new standards Ind ASs and awaiting for the effective date of Ind AS from the MCA’s end. Keeping in view the needs of the hour, to improve the global ranking on corporate governance and transparency in financial reporting, MCA has now notified the much awaited Indian Accounting Standards Rule, 2015 on 16th February, 2015 for implementing these Ind ASs (i.e. converged accounting standards). According to this rule, these Ind AS should be implemented in a phased manner from the accounting period commencing on or after 1st April, 2015 voluntarily and it would be mandatory from the accounting period commencing on or after 1st April, 2016. The first segment report mandatorily complying with Ind AS 108 will come into the light in the year 2016-17 in India. But in this transition period that is from the announcement of convergence to the implementation of Ind AS (2007 to 2015) how the entities have reported their segment information? Is the segment reporting practices influenced by the IFRS 8? Whether
they voluntarily use the IFRS 8 for their segment reporting or not. In this way, many questions may arise about the segment reporting practices particularly in this transition period.

In this prominent developing phase, segment reporting in India got rejuvenated when ICAI has issued Ind AS 108 ‘Operating Segments’ for segment reporting. So it is the thirst of the time to examine the current segment reporting practices of Indian listed companies for judging the impact of global convergence of accounting standards on segment reporting practices in India.

1.2 REVIEW OF LITERATURE

Davidson (1968) emphasized the need for disaggregated information. But he suggested to report only the contribution of each segment due to the problems associated with the allocation of joint cost and joint assets.

Backer and Mcfarland (1968) identified three major relevancies for using segment wise information to analyze the financial statements. The relevancies are: i) Segment reporting provide knowledge regarding business activities of a company and relative size of the various components. ii) Segment sales and contribution are require to forecast the consolidated profit. iii) Segment result helps to measure the success of the management of the entities.

Mautz (1968) also supported the necessity of segment reporting as different segment of entities faces different rate of profitability, degree of risk, and growth opportunity due to the operation in a number of geographic region with a verity of products.

Kinney (1971) conducted a study on 24 companies for the period 1968 and 1969 to judge the usefulness of segmental data for forecasting future prospects of the entity.
The study cited the fact that predictive ability of the users will be increased if segment data are provided along with the consolidated financial statements.

Sommer (1974) emphasized that there must be some mandatory provision for segment reporting such that all companies should follow same consistent line in regards to segment disclosures. He explains and supports the disclosure of segment wise information, on the ground of equal accessibility of information of all stake holders of the company.

Collins (1976) selected 96 companies those disclosed segment data by using random sampling technique after disclosure of certain segment information was made mandatory in the USA to forecast of sales, profit, change of sales and change of profit for the period 1968 to 1970 under both the models; consolidated model as well as segment model. He found that in all forecasts, the segment model significantly better than consolidated model.

Beresford and Buckner (1978) observed that out there is no uniformity in the presentation of segment wise information data even among the homogeneous industries. The process of identifying geographic segments and presentations were also not uniform.

Emmanuel and Pick (1980) was conducted an empirical study in the UK by selecting 39 companies to forecast sales and earnings for the period 1973 to 1977. They also reached the Collins’s conclusion that segment based sales and earnings forecast were more accurate than the random walk model.

Silhan (1982) reached at the ever growing conclusion that the forecast were more accurate for more segment reported companies. That means there is directly positive co-relation between the number of reported segments and accuracy of the forecast.
Gray and Radebaugh (1984) found that US multinationals usually have a tendency to disclose the financial information at high level of aggregation. They also noted that the disclosures about geographic segments were very few and the voluntary disclosures were very limited.

Silhan (1984) examined the effects of quarterly segment information. Silhan again supported the conclusion given by Kinny and Collins that segment models are superior to consolidated models for annual forecasts. He observed that it hold good in respect of quarterly forecasts also.

Chander (1986) examined the problems and prospects associated with segment reporting. He concluded that the segment reporting provides a better insight about the performance of the entities with various segments to their stake holders.

Garrod and Emmanuel (1987) examined the degree of accuracy of segment based on forecast in between the companies belongs to the different industries. They found that superiority of segment information based forecast become more accurate when the industry to which the company belongs is less likely to reflect the growth rate of the economy as a whole. The study indicates that relative success of LOB based forecast depends upon the diversification pattern of the companies.

Tyson and Jacobs (1987) conducted a study on banking industry and reported that the geographical segmentation is different among the various banks which hamper the comparability attribute of the financial statement. So they concluded that the results were not comparable even among the homogeneous firms belongs to the same industries unless and until SFAS 14 has been applied fairly.

Balakrishnan et al. (1990) examined the accuracy of earning forecasts derived from the geographical segment data of 89 US companies. They concluded that the geographical segment data appears to be more useful for forecasting earnings.
Pradhan and Harris (1992) examined the impact of geographical segment data of a large group of US companies that had started disclosing geographic segments for the first time as per the SFAS 14. They found that a change in beta was significantly related to segmental disclosures.

Senteny and Bazaz (1992) conducted a study on the association between the unexpected share price changes and changes in annual consolidated earnings. They observed that the degree of association was weaker after release of their geographical segment data due to the more accuracy of the earning prediction (based on geographical segment data) of the financial users.

Conover and Wallace (1995) contributed empirical evidence and showed that there are equity market benefits for releasing geographical segment data. They concluded that there was a positive relationship between the extent of geographic segment information released and the performance of the firm’s equity market.

Cloyed et al. (1996) examined the effects of managers’ incentives at public versus private firms on the importance of tax and book conformance. They also suggested that managers consider tax consequences as well as financial reporting effects in their decisions.

Harris (1998) examined the relation between the industry competition and manager eagerness to report as the business segment. The study interpreted that manager has resistance to report as a business segment in a highly competitive industry as it allegedly provide some valuable information to the competitors. In the relatively less competitive industry manager also resist to report as a business segment as it allow to earn relatively high abnormal profit.

Banerjee’s (1999) study was relating to the opinion of academicians as well as professionals accountants about the necessity and threshold of segment reporting in the
context of India. He found that almost respondents were in favor of segment reporting and a large portion of respondents suggests that 20% of the turnover of the firm should be taken as a threshold for segment reporting.

Gray et al. (1999) reviewed the segment reporting pattern of some selected European companies which adopted the IAS 14 (revised). They also conducted a comparative study between the early adopters of FASB 131 of US companies and the early adopters of IAS 14 (revised) of European companies. They found that all companies were not complied the revised IAS 14 at all. From the second observation they supported that IASC approach has substantial merit.

Nichols and Street (1999) experimented how the public companies (which had adopted FASB 131 early) have been reporting about their segments. They found that most of early adopter public companies maintain a consistency between their MD&As and reportable operating segment. The evidence also indicated that the companies provided some additional geographic information under the new standard.

Botosen and Harris (2000) reviewed the determinants of managers’ decisions to voluntarily increase segment disclosure frequency. They did not found any association between the voluntarily segment information disclosure and the proprietary costs.

Herrmann and Thomas (2000) examined the segment reporting disclosures under SFAS No.131 compared to those reported in the previous year under SFAS No. 14. Their finding highlighted that two-third of the sample firms have redefined their primary operating segments upon adopting SFAS No.131 and companies are disclosed more information about their operating segments.

Mains and McDaniel (2000) conducted an experiment to examine whether alternative presentation formats affect the processing of comprehensive income information by nonprofessional investors. Their results indicate the nonprofessional
appropriately evaluate the volatility of unrealized gain reported as a part of other comprehensive income, regardless of whether manager report such information in a statement of stakeholders’ equity or in a separate statement of comprehensive income.

Street, Nichols and Gray (2000) analyzed the impact and effectiveness of SFAS no. 131 among the segment disclosures practices of 1000 US global companies for 1997 and 1998. They found that the number of business segment is increase and the number of items of segment information is also increase. In addition they also reported that the consistency of segment information with other parts of annual report is improved.

Doupnik and Seese (2001) tried to evaluate certain aspects of geographic segment disclosures in the implementation of SFAS 131 of Fortune 500 companies. They found that there is a great diversity among the way by which they disclosed their geographical segment information.

Reddy and Satish (2001) conducted a comparative study between the Indian accounting standard and the international accounting standard on segment reporting. They also examined the segment reporting practices of some Indian companies prior to the application of AS 17. They found that most of the company disclosed their segment data by way of footnotes. They concluded that AS 17 is expected to give more detail and relevant information to the stakeholders of the company.

Sen (2001) identified some issue pertaining to segment reporting. He discussed the rational of segment disclosure and defined the way in which accounting standard setters have attempted to resolve segment reporting problems. He judged the effectiveness of segment information by providing a brief discussion regarding certain empirical research conducted in the international arena. He concluded that ‘Segment reporting has advanced a lot, but there still exists scope for further improvement’.
Biddle and Choi (2002) support the need to weight comprehensive income elements in valuation decisions. They found that comprehensive income is more relevant for share returns than traditional net income and securities gains and losses provide the greatest incremental value-relevance among the other comprehensive income components.

Krishnamurthy (2002) argued that, due to the mandatory implementation of AS 17 from the accounting periods 2001-02 retail investors become in a position to glean information from segment data. He also mentioned that at the time of amalgamation or merger this segment data are very much useful to the stakeholders of the companies.

Mande & Ortman (2002) found that Japanese firms did not define segments meaningfully and consistently and arbitrary in the allocation of common costs. Further, they did not believe that usefulness of segment data improves when it is audited.

Sinha (2002) examined the effect of SEBI requirements of disclosing segment information. He found that certain number of sample companies have failed to follow the SEBI stipulation for Segment reporting.

Swain et al. (2002) conducted a study on the usefulness of segment data with a special reference to the view point of merger and amalgamation. They supported the same thing which was argued by Krishnamurthy and concluded that application and implementation of AS 17 is a right step to the right direction.

Ball et al. (2003) conducted their study in four Asian countries namely Hong Kong, Malaysia, Singapore and Thailand. Their standards derive from common law sources (UK, US and IFRS) that are widely viewed as higher quality than code law standards. However, they concluded that adopting high quality standards might be a necessary condition for high quality information but not sufficient one.
Berger and Hann (2003) examined the effect of adoption of SFAS No. 131 by selecting 100 single segment firms. They found that the largest increase in the number of segments report due to the adoption of SFAS No. 131.

Thiagarajan (2003) reviewed the segment reporting practices of engineering, aluminum and pharmaceuticals companies after segment reporting has been mandatory in India. He found that most of the sample companies bypassed the spirit of segment reporting regulation by claiming that they operated in a single reportable segment.

Hirst et al. (2004) investigated whether difference in the way in which commercial banks measure and report comprehensive income. They found that the valuation judgment of analysts distinguish between banks with different levels of risk only when fair value changes are measured completely and included in a separate comprehensive income statement.

Bartov et al. (2005) found that value relevance of IFRS-based earnings is higher than that of German GAAP based earnings.

Botosan and Stanford (2005) interpret their results as evidence that under SFAS No. 14 managers hide profitable segments, operating in less competitive industries.

Cuijpers, R. and Buijink, W. (2005) examined the determinants and consequences of voluntary adoption of non-local accounting principles by firms listed and domiciled in the European Union. They found that dispersion of analyst forecasts is higher for firms using IFRSs, or US GAAP than that of those using local GAAP and also explored that there is no evidence of a lower cost of equity capital for IFRS adopters.

Kim, J. & Shi, Y. (2005) proved that the cost of equity capital is significantly lower for IFRS adopters and it is also greater when the IFRS adopters are from countries with weak institutional infrastructure.
Mallick and Rakshit (2005) addressed the transfer pricing problem in the context of segment reporting. They found that divisional manager always tries to increase performance of his own unit by applying a suitable transfer pricing method which may not always appear consistent with maximizing the value of the company as a whole. They concluded that there should be premise that the intra company pricing scheme should be designed to facilitate the maximization of corporate profits rather than segment profits.

Sen (2005) reviewed in depth the key issues concerning segment reporting. He studied the segment reporting practices of the selected public limited companies in India. He found that the new segment reporting requirements have vastly improved disclosure practices in India. In addition, he provides certain valuable suggestions for further improvement of segment reporting in India and abroad.

Van Tendeloo & Vanstraelem (2005) observed that IFRS adopters do not present different earnings management behavior compared to companies reporting under German GAAP.

Daske (2006) used a set of German firms that have adopted IFRSs and investigate the cost of equity capital through some estimation methods, but failed to prove lower expected cost of equity capital for firms applying IFRSs.

Gassen & Sellhorn (2006) concluded that companies using IFRS show smaller bid-ask spreads than those using German GAAP.

Hunton et al. (2006) examined whether the greater transparency in comprehensive income reporting also reduces the likelihood that managers will engage in earnings management in the area of increased transparency. They found that more transparent reporting requirements will reduce earnings management in the area of
increased transparency or change the focus of earning management to less visible methods.

Platikanova & Nobes (2006) tried to examine whether IFRS increase value-relevance of corporate disclosure using trader response in financial markets of 15 EU countries. They found that IFRSs adoption is positively associated with a significant increase in both size and volatility of information asymmetry component for UK firms. They argued that although average bid-ask spread decrease over the time but it does not necessarily lead to lower information asymmetry.

Berger and Hann (2007) examined at the segment level whether managers disclosure decisions are influenced by their proprietary and agency cast motive to conceal segment profits. They test two hypotheses: i) when the proprietary cost motive dominants, manager tend to withhold the segments with relatively high abnormal profits and ii) when the agency cost motive dominates, managers tend to withhold the segment with relatively low abnormal profits. Their result was consistent with the agency cost motive hypothesis, whereas they found mixed evidence with regard to the proprietary cost motive hypothesis.

Dumoniter, P. and Maghraoui, R. (2007) in Germany argued that compliance with IFRS does not reduce the dispersion of analyst forecasts or forecast errors.

Hessling & Jaakola (2007) examined the segment reporting practices under IAS 14R and also assessed the possible impact of IFRS 8 on Swedish companies. They found that current segment reporting practices in Sweden under IAS 14R has an overall high quality in terms of consistency and compliance. They also identified that implementation of IFRS 8 has less impact on segment reporting practices in Sweden.

Hung & Subramanyam (2007) pointed out that IFRSs adoption has no effect on the value-relevance of book value and net income in German.
Jermakowicz et al. (2007) found that value-relevance of earnings is higher for DAX-30 companies using IFRS or US GAAP.


Barth et al. (2008) found that in the post adoption period, companies applying IFRSs showed evidence of less earning management.

Christensen et al. (2008) claimed that improvements in accounting quality are confined to firms with incentives to adopt IFRSs.

Daske et al. (2008) proved that ‘serious’ IFRS adopters experience stronger effect on the cost of capital and market liquidity than ‘label’ adopters and also found that the capital market benefits of IFRS adoption occur only if the legal enforcement is strong.

Ernstberger et al. (2008) highlighted that in Germany forecasting accuracy is higher for estimates based on IFRSs or US GAAP data than for those based on German GAAP figures and also pointed out that the cost of equity is lower for the IFRSs adopters.

Hodgdon et al. (2008) proved that compliance with IFRS reduces analysts’ forecasting errors and it helps to enhance the ability of financial analysts to provide more accurate forecasts.

Paananen's (2008) study in Sweden pointed out that IFRS adoption does not reduce income smoothing and also stated that the value relevance of accounting figures are not affected by IFRS adoption.
Vogel et al. (2008) concluded that there is a considerable variation in the level of IFRS compliance among European companies.

Crawford et al. (2010) examined the likely consequences of implementing IFRS 8 in Europe. They found that company would continue to publish the geographical segment information even though it is not mandatory, as these data required to provide the CODM regularly. In addition, they also argued that information reported internally to the CODM might be changed as a result of implementation of management approach in reporting.

Mardini et al. (2012) conducted a study on few selected Jordanian listed companies to assess the impact of IFRS 8 on segment reporting practices in Jordan. They concluded that it has a significant and sizable impact on segmental disclosure practices of the selected companies. They also claimed that under IFRS 8’s management approach the disclosure of segmental information had increased, published segmental information become more organized, transparent and better explained.

Helen Kang & Sidney J. Gray (2013) analysed the segment disclosures of the top 200 companies listed on the Australian Stock Exchange in their pre and post adoption of AASB 8 (the equivalent standard to IFRS 8). They found that the number of reportable segments and the extent of disclosures have increased due to the adoption of AASB 8. However, the segment reporting format remains same but a very little change has observed in the identification of the reportable segments.

From the above review of literature, it is clear that, during this transition period, no study has been done on segment reporting practices in India. So to bridge the gap in the existing literature, the present study makes an attempt to examine the impact of global convergence of accounting standards on segment reporting practices in India.
1.3 OBJECTIVES OF THE STUDY

In this era of transition, it is the eagerness of the time to study the recent segment reporting practices. The main objective of the study is to determine the impact of global convergence of accounting standards on segment reporting practices of selected Indian listed companies. It also highlights the trend of development in various statutory requirements and standards on segment reporting issued by the national and international standard setting bodies. The specific objectives are:

- To analyse the theoretical framework of segment reporting. [Chapter II]
- To study the trend of developments in accounting standards on segment reporting in both national and international arenas. [Chapter III]
- To study the convergence of accounting standards on segment reporting in India. [Chapter IV]
- To analyse the present statutory requirements regarding segment reporting in India. [Chapter V]
- To examine the current segment reporting practices in selected Indian listed companies and the impact of global convergence of accounting standards thereupon. [Chapter VI]
- To present the concluding observations and suggestions. [Chapter VII]

1.4 METHODOLOGY

The present study is both theoretical and empirical in nature. The theoretical part of the study is primarily based on available literature. This part explores the theoretical exposure and statutory requirements for segment reporting in India. It critically explains the recent development in the field of segment reporting in India as well as in the international arena. This part also examines the differences and similarities among the various accounting standards on segment reporting. The
empirical part of the study examines the current segment reporting practices of selected Indian listed companies and tries to assess the impact of convergence of accounting standards thereupon.

1.4.1 Sample of the Study

First of all, 50 Nifty companies were selected, but it was found that out of them only 5 companies were following the IFRSs. That’s why these 5 companies have been purposively selected for exploring the segment reporting practice under the new regime. Initially to judge the impact of IFRS 8 a comparison has made between two sets of financial statements of the selected companies- Under Indian GAAP and Under IFRSs. Finally a horizontal comparison has also been made between two groups of companies- IFRSs compliers and Non-IFRSs compliers (i.e. Indian GAAP compliers). For this horizontal comparison another group of 5 Non-IFRSs compliers companies have also been selected from remaining 45 companies of the 50 Nifty companies particularly from the related industries. Final list of the sample companies given below:

Table 1.1: List of the Selected Sample Companies with Industry

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of the Company</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dr. Reddy's Laboratories Ltd.</td>
<td>Pharmaceutical</td>
</tr>
<tr>
<td>2</td>
<td>Infosys Ltd.</td>
<td>IT Services</td>
</tr>
<tr>
<td>3</td>
<td>Sterlite Industries (India) Ltd.</td>
<td>Mining and Metal</td>
</tr>
<tr>
<td>4</td>
<td>Tata Motors Ltd.</td>
<td>Automobiles</td>
</tr>
<tr>
<td>5</td>
<td>Wipro Ltd.</td>
<td>IT Services</td>
</tr>
<tr>
<td>Sl. No.</td>
<td>Name of the Company</td>
<td>Industry</td>
</tr>
<tr>
<td>-------</td>
<td>--------------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>1</td>
<td>Cipla Ltd.</td>
<td>Pharmaceutical</td>
</tr>
<tr>
<td>2</td>
<td>HCL Technologies Ltd.</td>
<td>IT Services</td>
</tr>
<tr>
<td>3</td>
<td>Coal India Ltd.</td>
<td>Coal</td>
</tr>
<tr>
<td>4</td>
<td>Bajaj Auto Ltd.</td>
<td>Automobiles</td>
</tr>
<tr>
<td>5</td>
<td>Reliance Industries Ltd.</td>
<td>Diversified</td>
</tr>
</tbody>
</table>

Source: NSE 50 Nifty Companies

1.4.2 Sources and Nature of Data

Particularly for examining any practices, secondary data are more relevant in comparison to the primary data because most of the primary data are being altered by the respondents to cover up their own interests. Report itself is a reflection of the reporting practices that is why, to examine any reporting practice, it is the only way to thorough scrutiny of the report without informing the reporters so that they are not able to modify their report. Therefore, to analyze the segment reporting practices, secondary data have been collected from the published audited annual report of these sample companies for the financial periods – 2010-11 to 2014-15. Whereas the theoretical part of the study has been prepared by using the data mainly collected from various published books, journals, magazines, websites etc. which have also been duly mentioned in the bibliography. Moreover, the data which have been used for this study basically secondary in nature.

1.4.3 Period of the Study

The period of study is restricted to five financial years, i.e. from 2010-11 to 2014-15. The starting financial period is 2010-11 because from this particular period all of these 5 companies have started their reporting under IFRSs. The study period is
ended with 2014-15 as from 2015-16 the first segment report voluntarily complying with Ind AS 108 will come into the light (i.e. beginning of the convergence period). This period will facilitate to judge the current segment reporting practices as well as to evaluate the impact of the convergence of accounting standards thereupon particularly in transition period.

1.4.4 Research Questions, Comparative Attributes and Hypotheses

To address the main objective of the study, following research questions have been analyzed:

- Whether every entity has adopted IFRS 8 for segment reporting.
- Whether any entity adopted IFRS 8 early to the SEC’s announcement.
- Who have been identified as the chief operating decision maker?
- What is the basis of identification of operating segments?
- Is there any entity which has aggregated its operating segments?
- How many operating segments have reported?
- The size of operating segments in terms of assets, revenue and results.
- What specific items are disclosed for each operating segment?
- What voluntary items are disclosed for each operating segment?
- How many segment items are disclosed for each operating segment?
- Which basis has been used for measuring operating segment information?
- What is the basis of measurement of segment profit or loss?
- What is the basis of distribution of joint items among operating segments?
Descriptive comparisons have been made on the basis of following attributes to determine the differences (if any):

- Basis of identification of reported segments.
- Aggregation of the segments and reasons thereof.
- Number of reported segments.
- Number of reported segment information.
- Basis of measuring segment information.
- Measurement of segment profit or loss.
- Basis of distribution of joint items.

Hypotheses that have been formulated to highlight the exact impact of IFRSs on the segment reporting practices in India:

- **Hypothesis I:**
  
  Null Hypothesis ($H_{01}$): There is no significant difference in the number of reported business segment (i.e. $\mu_1=\mu_2$); against

  Alternative Hypothesis ($H_{11}$): There is a significant difference in the number of reported business segment (i.e. $\mu_1\neq\mu_2$).

- **Hypothesis II:**

  Null Hypothesis ($H_{02}$): There is no significant difference in the number of reported geographical segment (i.e. $\mu_1=\mu_2$); against

  Alternative Hypothesis ($H_{12}$): There is a significant difference in the number of reported geographical segment (i.e. $\mu_1\neq\mu_2$).
• **Hypothesis III:**

Null Hypothesis (H$_{03}$): There is no significant difference in the number of reported segment-information for each business segment (i.e. $\mu_1=\mu_2$); against

Alternative Hypothesis (H$_{13}$): There is a significant difference in the number of reported segment-information for each business segment (i.e. $\mu_1 \neq \mu_2$).

• **Hypothesis IV:**

Null Hypothesis (H$_{04}$): There is no significant difference in the number of reported segment-information for each geographical segment (i.e. $\mu_1=\mu_2$); against

Alternative Hypothesis (H$_{14}$): There is a significant difference in the number of reported segment-information for each geographical segment (i.e. $\mu_1 \neq \mu_2$).

1.4.5 Statistical Tools and Techniques

To judge the impact of IFRS 8, initially the collected data have been analyzed by employing some of the descriptive statistics like mean, median, mode, standard deviation, rank and finally to test the formulated hypotheses the appropriate test static Fisher’s t test has been employed since both the population $\sigma$ and $\mu$ are unknown and sample size is small and they are independent in nature.

1.5 SIGNIFICANCE OF THE STUDY

In the age of globalization, most of the transactions have become globalized that means the parties involved with the transactions are not domiciled in the same nation. As a result involved parties are not able to understand the financial report in a well manner as their reporting practices are not same. Under this globalized business
scenario, residents of the business community are in an acute need of a common accounting language that can be used across the globe. To remove such problem and to achieve some remarkable benefits various accounting-focused organizations, standard setting bodies, accounting academics and business leaders have devoted considerable efforts to develop a unique single set of globally recognized robust accounting standards. Accordingly, IASB has undertaken a joint short-term convergence project with the United States’ Financial Accounting Standard Board (FASB) by Norway agreement on October, 2000. By considering these two sets of accounting standards IASB has issued various accounting standards namely IFRSs which have been recognized as a strong base for convergence across the world.

The process of convergence has got momentum just after the decision of European Union, India is not the exception to this trend. India has also rightly decided to converge her accounting standards with these globally recognized quality accounting standards IFRSs. Accordingly, the Indian apex standard setting body ICAI has also issued a set of converged accounting standards (i.e. Ind-AS) which are more or less same with the corresponding IFRSs. No doubt the convergence with IFRS has several benefits and that is why like other countries India has also issued the converged accounting standards. But should this convergence of accounting standards really bring the uniformity in financial reporting? Will financial reporting practices be devolved and provide all the relevant information to the stakeholders? Should convergence of accounting standard ask to change any legal or statutory requirements for preparation of financial statements? Should convergence bring all such expected benefits in Indian scenario also?

Moreover, in this project of convergence, ICAI has also issued Ind AS 108 ‘Operating Segment’ (i.e. converged accounting standard) for segment reporting. It has
replaced the risk-reward approach by management approach for identification of operating segments in the line of IFRS 8. Although there is very little research work (at international level) upon the impact of this new approach, but whatever have been done, almost all of such study has claimed that, it has a positive impact on segment reporting practices. Other studies which had judged the prospective impact of this new approach in various particular nations just before its mandatory implementation also claimed the same thing. A number of research papers have also claimed that it allows the users to assess the segment reporting through the eye of management which may add a new dimension to segment reporting. But there is no such study at all which has examined the impact upon reporting practices of any of the developing countries like India particularly for the transition period. Even though, India has announced to converge with IFRSs and issued converged accounting standards along with the schedule for implementation, but is yet to be implemented. So in this transition period, how Indian companies are reporting their operating segments – whether they have used this new approach or not. That means whether the Indian companies have started to follow it for improving their reporting quality on voluntary basis or they are simply waiting for the mandatory implementation date of Ind ASs.

In this backdrop, this study has undertaken for searching out the logical fact behind the Indian reality and for searching out the answers of these basic questions, although field of the study is restricted only in segment reporting practices. Thus to judge the effectiveness and usefulness of global convergence of accounting standards through exploration of recent reporting practices this study has immense importance. It will present the current reporting practices and provide theoretical framework of segment reporting. It will analyze the various accounting standards on segment reporting throughout the world. It will also explore the convergence process in India
and its effects on segment reporting. Finally it would recommend some valuable suggestions for improvement the scenario.

 Moreover, this study would contribute several things, some of the specific significant contribution may be summarized here under:

- It is intended to meet the existing research gap in the field of financial reporting.
- It will trace out shortfall in the process or strategy of convergence, if any.
- It examines the usefulness of the convergence particularly in terms of qualitative characteristics of financial reporting.
- It helps to judge whether the current accounting practices compliance with converged accounting standards or not.
- It will highlight whether all objectives of convergence are achieved in India or not.
- It will explore the existing statutory requirements regarding segment reporting in India.
- It will highlight the developments in accounting standards on segment reporting in both national and international arena.
- It is quite important to review any new standard for maintenance and further improvement – this study has undertaken this review process for smooth maintenance and further improvements of the standard.
- It should make a comparison between the national and international standards on segment reporting.
- It should explore the segment reporting practices in India for this transition period.
- It will judge the impact of Ind AS upon the reporting practices especially in this transition period, if any.
It helps to examine the current segment reporting practices in India and impact of the global convergence thereupon.

The policy maker and standards setter may use the findings of the study for development of any new standard in this field.

This study is also going to pave out the way by which authority can improve the disclosures practices in segment report. It should judge whether the disclosed segment information are sufficient to meet the needs of the users or not. It should also identify any additional segment information required to meet the modern needs of the stakeholders.

Finally it may offer some valuable suggestions for improvement of the scenario as a whole.

1.6 SCHEME OF THE STUDY

To achieve the above mentioned objectives, the study has been divided into six chapters as stated below:

Chapter 1: Introduction (Introducing the theme, objective of the study, research methodology and significance of the study)

Chapter II: Theoretical Framework of Segment Reporting

Chapter III: Accounting Standards on Segment Reporting: Global Scenario

Chapter IV: Convergence of Accounting Standards on Segment Reporting in India

Chapter V: Statutory Regulations for Segment Reporting in India

Chapter VI: A Study on Impact of the Convergence of Accounting Standards on Segment Reporting Practices in Selected Listed Companies in India

Chapter VII: Summery of Findings, Conclusions and Recommendations